Order 2003-6-28
Served: June 24, 2003

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the **19th day of June, 2003**

Essential Air Service at **BROOKINGS, SOUTH DAKOTA, and HURON, SOUTH DAKOTA** under 49 U.S.C. 41731 *et seq.*	**Docket OST-1997-2785** **Docket OST-2000-7138**

ORDER SETTING FINAL SUBSIDY RATE AND TO SHOW CAUSE ON TERMINATION OF SUBSIDY ELIGIBILITY

SUMMARY
By this order, the Department is tentatively terminating the subsidy eligibility of Brookings, South Dakota, under the Essential Air Service Program because the subsidy per passenger exceeds the $200 per passenger statutory ceiling and the community is less than 210 highway miles from the large hub airport at Minneapolis/St. Paul, Minnesota. The Department is also setting a final subsidy annual rate of $1,911,452 for Great Lakes Aviation, Ltd., for service at Brookings and Huron, South Dakota, from January 1, 2003, until the termination of service at Brookings becomes effective.

BACKGROUND
By Order 2000-12-24, December 26, 2000, the Department authorized an annual subsidy rate of $394,585 for Great Lakes Aviation, Ltd. (Great Lakes), for the two-year period of January 1, 2001, through December 31, 2002, to provide essential air service at Huron, consisting of 12 nonstop or one-stop round trips each week to Minneapolis/St. Paul., with 19-seat Beech 1900D aircraft.

By Order 2001-9-11, September 17, 2001, the Department authorized an annual subsidy rate of $849,386 for Great Lakes for the period of May 1, 2001, through December 31, 2002 (to conform the Brookings rate period with that of Huron), to provide essential air service at Brookings, consisting of 12 nonstop or one-stop round trips each week to Minneapolis/St. Paul, with 19-seat Beech 1900D aircraft.

Before we reached the end of that contract period, we learned that other air carriers were interested in serving Brookings and Huron; hence, we issued Order 2003-4-5, April 3, 2002, in which we requested proposals to provide essential air service for a new, two-year period at Brookings and Huron.

Three carriers responded with proposals, summarized below.

Great Lakes, the incumbent, offered a proposal with two service options. The carrier and our staff have agreed to the service and subsidy levels for the two options as follows: (A) Two round trips over the routing Huron-Brookings-Minneapolis/St. Paul each weekday and each weekend with 19-passenger Beech 1900D aircraft for $1,911,452 annually; and (B) two nonstop round trips over the routing Huron-Brookings-Omaha each weekday and each weekend with 19-passenger-seat Beech 1900D aircraft for $1,711,103 annually.

Mesa Air Group's original proposal on behalf of its wholly-owned subsidiary, Air Midwest, Inc., is to provide two round trips over the routing Huron-Brookings-Omaha each weekday and each weekend with 19-passenger-seat Beech 1900D aircraft for $2,278,617 annually.

Westward Airways, Inc's original proposal is to provide one round trip each weekday over the routing Huron-Brookings-Omaha and two round trips each weekday over the round-robin routing Omaha-Huron-Brookings-Omaha. Weekend service would consist of two round trips over the routing Huron-Brookings-Omaha and two round trips over the round-robin routing Omaha-Brookings-Huron-Omaha. All service would be provided with single-engine, 9-passenger-seat, Pilatus PC-12 aircraft for $1,257,209 annually.[1]

TRAFFIC LEVELS

Brookings's historical passenger traffic from 1987 through the year ended March 31, 2003, is summarized in Appendix A to this order. Brookings has generated more than six enplanements a day only during one year in the last decade, in 1998, and that occurred when the community was receiving three round trips each service day to Minneapolis/St. Paul. Traffic has declined steadily since then, to a low of 1,736 for the year ended March 31, 2003 (the most recent annual period for which passenger traffic data have been reported to the Department).

DECISION

The Department is prohibited from subsidizing service at communities where subsidy amounts to more than $200 per passenger, unless they are more than 210

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[1] This aircraft type does not satisfy the requirement set by 49 U.S.C. 41732(b)(5) that requires service to be provided in aircraft with at least two engines. Accordingly, the Department could not select a proposal such as this unless the community indicates that it will waive its entitlement to receive service in aircraft with at least two engines.

miles from the nearest large or medium hub.[2] Because Brookings's subsidy per passenger exceeds the statutory cap of $200 per passenger, and Minneapolis/St. Paul is within 210 miles, we find that it is ineligible for continued subsidy support and have tentatively decided to terminate Great Lakes' subsidy rate for serving the community effective on the 21st day following the date of service of this order. Great Lakes would be free to discontinue service at that time. We will set a final rate for Great Lakes' service at Brookings and Huron to Minneapolis/St.Paul from January 1, 2003, until the carrier terminates service at Brookings.

When establishing subsidy rates for a linear route such as Huron-Brookings-Minneapolis/St. Paul, we include all of the expenses of operating the entire route and all of the revenues generated by both communities to arrive at one subsidy rate for both communities combined. When evaluating the subsidy per passenger over such a route, our long-standing program practice has been to allocate one-half of the total subsidy to each community, and then to compare that to each community's passenger levels. Consistent with that well-established methodology, Great Lakes' agreed-to annual subsidy rates for Brookings-Minneapolis/St. Paul service, $955,726[3], and Brookings-Omaha, $855,551[4] would yield subsidy per passenger figures of $551[5] and $493,[6] respectively. Each of these figures clearly exceeds the $200 statutory cap by a very wide margin. (Huron's subsidy per passenger figure of $385, based on 2,485 passengers for the year ended March 31, 2003, also exceeds the $200 cap, but Huron is located more than 210 highway miles from the closest medium or large hub airport.)

Because we take a decision to terminate a community's subsidy eligibility very seriously, we have also examined the situation in the context of service proposals from prospective replacement carriers to see if there are any viable options at less than $200 per passenger. Neither of them falls anywhere near the $200 per passenger cap.[7] The least expensive option in terms of subsidy is Westward Airways' proposal for service to Omaha for $1,257,209 annually for Brookings and

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[2] Congress first imposed that eligibility standard in fiscal year 1992 appropriations language and repeated it every year through fiscal year 1999. Then, by P.L. 106-69, the Department of Transportation and Related Agencies Appropriations Act, 2000, Congress made it a permanent eligibility standard.

[3] One-half of the Brookings and Huron to Minneapolis/St. Paul rate of $1,911,452.

[4] One-half of the Brookings and Huron to Omaha rate of $1,711,103.

[5] Subsidy of $955,726, divided by 1,736 origin-destination passengers reported for the year ended March 31, 2003.

[6] Subsidy of $855,551, divided by 1,736 origin-destination passengers reported for the year ended March 31, 2003.

[7] Because Air Midwest's and Westward's proposals are so far in excess of the $200 cap, the staff did not conduct rate conferences, which are designed for the carriers to document their cost and revenue assumptions to ensure that the Department does not authorize more subsidy than is necessary. At the current annual passenger level of 1,736, the maximum subsidy that we could pay would be $347,200 or $694,400 for the whole itinerary.

Huron. This proposal yields a subsidy per passenger figure of $362.[8] Mesa/Air Midwest's proposal amount of $2,278,617 for service to Omaha yields a subsidy per passenger figure of $656.[9]

As stated above, even using the lowest subsidy rate of $1,257,209 for Westward's single-engine operation results in a subsidy per passenger of $362. Looked at another way, at a subsidy rate of $628,605 (one-half of $1,257,209), Brookings would have to generate 3,143 passengers a year, a level not attained since 1998. As we indicated earlier, Brookings was receiving three round trips to Minneapolis/St. Paul—more service than we would subsidize today—and still generated an average of only eight enplanements per day. In addition, the Sioux Falls airport is only 57 miles away, and offers nonstop jet service by several carriers to a number of destinations. Thus, it is apparent that there is no alternative under which we could continue to secure air service for Brookings at a subsidy-per-passenger even close to the $200 ceiling, and we see little likelihood that the trend will reverse itself. Based on all of the above, therefore, we have tentatively decided to terminate Brookings's subsidy eligibility.

Consistent with program practice, we will give the community 20 days after the service date of this order to object if it finds that we have made a mistake in any of our calculations. If we receive no objections, Great Lakes is permitted to suspend service after the end of the 20-day period. If we receive properly filed objections within the 20-day period, we will require Great Lakes to continue to serve Brookings until we issue a final order dealing with those objections. Interested carriers, including Great Lakes, may of course provide scheduled service at Brookings on their own initiative. Our action here simply makes the community ineligible to receive subsidized air service.

Before Great Lakes terminates service, we expect it to contact all passengers holding reservations for travel after the suspension date, to notify them of the suspension of service and the availability of nearby air services, and to assist them in making alternate travel arrangements.

Because Great Lakes has been operating under interim rates for Brookings and Huron, set by Order 2003-1-29, January 31, 2003, we will make the annual rate of $1,911,452 for service to Minneapolis/St. Paul effective as a final rate for the period of January 1, 2003, until the termination of subsidy eligibility for Brookings becomes effective. The Department's staff will work with the three applicants to negotiate a subsidy rate for service at Huron only.

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[8] Subsidy of $1,257,209, divided by 2 (allocating half of the subsidy cost to Brookings) divided further by 1,736 origin-destination passengers reported for the year ended March 31, 2003.

[9] Subsidy of $2,278,617, divided by 2 (allocating half of the subsidy cost to Brookings) divided further by 1,736 origin-destination passengers reported for the year ended March 31, 2003.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. We tentatively terminate the subsidy eligibility of Brookings, South Dakota, effective 21 days after the date of service of this order, and allow Great Lakes Aviation, Inc., to terminate service on that date;

2. We direct all interested persons to show cause within 20 days of the date of service of this order why we should not make final the tentative findings and conclusions set forth in paragraph 1, above.[10] If no objections are filed, all procedural steps will be deemed waived, and this order shall become effective on the 21st day following the date of service; [11]

3. If we receive timely-filed objections, we will require Great Lakes Aviation, Ltd., to continue its Brookings service until we issue a final order dealing with the objections. We will afford full consideration to the matters and issues raised in any timely and properly filed objection to this order;

4 The Department sets the final rate of compensation for Great Lakes Aviation, Ltd., for the provision of essential air service at Brookings and Huron, as described in Appendix C, for the period beginning January 1, 2003, until the termination of subsidy eligibility for Brookings becomes effective, payable as follows: For each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth by Appendix C and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by $1,554.00;[12]

5. The final rate of compensation set in ordering paragraph 4, above, is in lieu of, and not in addition to, the interim subsidy rates set by Order 2003-1-29, January 31, 2003;

6. The Department directs Great Lakes Aviation, Ltd., to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained.

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[10] Since we are providing for the filing of objections to this order, we will not entertain petitions for reconsideration.

[11] Objections should be filed with Dockets Operations and Media Management, M-30, Room Pl-401, 400 7th Street, S.W., Washington, D.C. 20590.

[12] See Appendix B for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, a revision of this rate may be required.

The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

7. Dockets OST-1997-2785 and OST-2000-7138 will remain open until further order of the Department; and

8. We will serve a copy of this order on the Mayors and Airport Managers of Brookings and Huron, South Dakota, the Governor of South Dakota, the Administrator, South Dakota Department of Transportation, Office of Aeronautics, Mesa Air Group, Inc., Westward Airways, Inc., and Great Lakes Aviation, Ltd.

By:

MICHAEL W. REYNOLDS
Acting Assistant Secretary for Aviation
and International Affairs

(SEAL)

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Essential Air Service at Brookings, South Dakota
Historical Origin-Destination Passenger Traffic (both directions)

Year ended	Origin-destination passengers [1]	Average annual enplanements [2]	Average enplanements per service day [3]
12/31/1987	4,431	2,216	7.1
12/31/1988	4,234	2,117	6.7
12/31/1989	3,790	1,895	6.1
12/31/1990	4,440	2,220	7.1
12/31/1991	1,557	778	2.5
12/31/1992	1,248	624	2.0
12/31/1993	1,969	984	3.1
12/31/1994	3,408	1,704	5.4
12/31/1995	3,711	1,856	5.9
12/31/1996	2,616	1,308	4.2
12/31/1997	1,885	942	3.0
12/31/1998	5,168	2,584	8.3
12/31/1999	3,121	1,560	5.0
12/31/2000	2,508	1,254	4.0
12/31/2001	1,877	938	3.0
12/31/2002	1,840	920	2.9
3/31/2003	1,736	868	2.8

[1] Source: U.S. Department of Transportation, Bureau of Transportation Statistics (BTS), Form 298-C, Schedule T-1, for traffic reported by Mesaba Airlines, GP Express Airlines, and Great Lakes Aviation, and BTS Form T100 on-flight market origin-destination passengers reported by Great Lakes Aviation.

[2] Origin-destination passengers divided by two.

[3] Average annual enplanements divided by 313 effective annual service days, except for the four quarters ended 12/31/1988, 12/31/1992, 12/31/1996, and 12/31/2000 (314 effective annual service days).

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Brookings and Huron, South Dakota
Calculation of Annual Compensation Applicable to Period beginning January 1, 2003

HON-BKX departures	1,230	Mileages:	HON-BKX	70
BKX-MSP departures	1,230		BKX-MSP	182
Total departures	2,460			
			Available seat-miles	5,889,671
Block hours	1,727			
			Revenue passenger-miles	906,150

Operating revenue:			
Passenger	2,350	HON-MSP passengers @ $79.05 average fare	$185,769
	1,725	BKX-MSP passengers @ $75.95 average fare	131,021
Subtotal passenger	4,075		$316,790
Other	0.0062	of passenger revenue of $316,790	1,964
Total operating revenue			$318,754

Operating expense:				
Direct operating expense:				
Flying operations	$177.035	per block hour	1,727	$305,775
Hull insurance	$13.2711	per block hour	1,727	22,923
Fuel and oil	$1.7909	195,278	gallons	349,729
Maintenance (a)	$121.46	per departure	2,460	298,813
Maintenance (b)	$97.28	per block hour	1,727	168,027
Aircraft lease	$25,500	per month	12	306,000
Total direct operating expense				$1,451,267

Indirect operating expense:				
Passenger-related	$10.25	4,075	total passengers	$41,769
Liability insurance	$0.01434	906,150	revenue pass.-miles	12,994
General and administrative	$0.02080	5,889.671	available seat-miles	122,505
Local marketing	$5,000	2	communities	10,000
Minneapolis/St. Paul station expense	$399.14	615	departures	245,471
Brookings station expense	$8,000	12	months	96,000
Huron station expense	$9,500	12	months	114,000
Huron hangar expense	$2,500	12	months	30,000
Total indirect operating expense				$672,739

Total operating expense				$2,124,006
Operating loss				$1,805,252
Profit element	0.05	$2,124,006	Total operating expense	106,200
Compensation requirement				$1,911,452

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Brookings and Huron, South Dakota
Summary of Service To Be Provided

Effective period: January 1, 2003, until termination of subsidy eligibility for Brookings.

Service: Two round trips each weekday and each weekend to Minneapolis/St. Paul.

Intermediate stops and upline service: Flights between Huron and Minneapolis/St. Paul may stop at Brookings; flights between Brookings and Minneapolis/St. Paul may originate or terminate at Huron.
No service to other intermediate or upline points is contemplated under the terms of this proposal; accordingly, no such service may be provided on subsidized flights without prior Department approval.

Aircraft type: Beech 1900D (19 passenger seats).

Timing of flights: Flights must be well-timed and well-spaced in order to ensure full compensation.

Subsidy rate: Per year: $1,911,452
Per flight: $1,554.00[1]

Weekly compensation ceiling:[2] $27,296[3]

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[1] Annual compensation of $1,911,452, divided by 2 (to allocate the subsidy between the two points), divided further by 1,230 estimated annual completed flights at each community (313 service days, multiplied by 4, multiplied further by 98.25 percent completion)

[2] Weeks that fall into separate calendar months shall be treated as part of the latter month for the purpose of calculating service weeks each month and monthly compensation. Service above the ceiling level in one week cannot make up for service shortfalls in another week.

[3] The subsidy rate per flight ($1,554.00) multiplied by the number of scheduled subsidy-eligible flights per community per week (24).

Great Lakes Aviation, Ltd.
Provision of Essential Air Service at Brookings and Huron, South Dakota
Summary of Service To Be Provided

NOTE

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of this order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirement at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.